

No. 15059

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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PANAVIEW DOOR & WINDOW CO.,

*Appellant,*

*vs.*

REYNOLDS METALS COMPANY,

*Appellee.*

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Appeal From the United States District Court, Southern  
District of California, Central Division.

Hon. Wm. C. Mathes, Judge.

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## PETITION FOR REHEARING.

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## PETITION FOR REHEARING.

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*To the Court:*

Pursuant to Rule 23 of this Court, the appellant hereby petitions for a rehearing, upon the following grounds, to wit:

1. This case is of great importance in all industry, because hundreds of businesses have entrusted their secret designs to extruders and others on contracts similar in form to that used in the instant case, and millions of dollars of trade secrets are in jeopardy if neither contractual nor equitable protection is obtainable.

2. This Court's opinion is in conflict with the law as enunciated in other Circuit Courts of Appeals.

verse side will bind the extruder-seller, unless it is expressly referred to by some such reference as:

“Die Charge (Per Par. 11 of Terms and Conditions.)”

*This Court has now held that this contract was unambiguous, and that Paragraph 11 concerning use of, and charges for, dies is inapplicable because the specific term “die charge” was not used therein.*

Thousands of trade secrets of inestimable value are opened to business piracy by this decision. Reynolds can now use any dies (or other equipment) which it made specifically to a customer's order, according to secret but unpatented designs owned by its customers. It can sell extrusions therefrom just as freely as if it invented the designs itself, or if it had imitated unpatented products without access to the unpublished trade secrets and drawings.

Not only can Reynolds do this—which is to be expected by reason of the fact that they claim such a right and practice—and they did it already—but now the other members of the industry, who, up to now have enjoyed the highest reputation for *not* doing so, can lower their ethics to that of the lowest common denominator in the market place, and, if they so choose, the customer cannot hope to look to the Courts for redress or injunctive relief.

II.

**This Court's Opinion Is in Conflict With the Law as Enunciated in Other Circuit Courts of Appeals.**

Two conflicts in the circuits are created by the opinion filed.

This Court upholds the findings that there existed "no fiduciary or trust relationship between the parties, and that there was never any disclosure by defendant of any confidential information furnished to it by plaintiff" (Opinion, p. 11).

The fact was undisputed, of course, that appellee had used the trade secret owned by appellant in order to construct a second set of dies to be used for the Windsor order, and that the dies originally constructed for the Panaview order were used, in the interim, by appellee's parts department to fabricate extrusions for the Windsor orders.

The Courts in the Second, Fourth, Sixth and Seventh Circuits have viewed differently the legal relationship created by similar factual situations:

*Franke v. Wittschek* (2nd Cir., 1953), 209 F. 2d 493;

*Ackerman v. General Motors* (4th Cir., 1953), 202 F. 2d 643;

*Herold v. Herold China & Pottery Co.* (6th Cir., 1919), 257 Fed. 911;

*Smith v. Dravo Corp.* (7th Cir., 1953), 203 F. 2d 369;

*Booth v. Stutz Motor Co.* (7th Cir., 1932), 56 F. 2d 962.

These cases are discussed in Appellant's Opening Brief, and we will add nothing to that discussion except to emphasize that the cases in the Fourth and Seventh Circuits involved *reversals* of trial courts which had *found no violation of trust and confidence*. In the *Ackerman* case, the inventor, while a patent was pending, disclosed his design to General Motors with a view to sale or license. After returning the inventor's drawings and rejecting his idea as unfeasible, General Motors used the idea in its own manufacture—*not disclosing same to outsiders!* In spite of evidence that General Motors employees claimed to have developed the ideas by independent effort (p. 646) the Court *reversed* the finding of no breach of confidence.

Likewise, in the *Dravo* case in the Seventh Circuit, the inventor furnished blueprints of his container, but defendant rejected the terms offered, and soon put on the market its own infringing product. Again, the findings for defendant were *reversed* and the Court found an implied promise of trust and confidence (p. 377).

#### SECOND COUNT.

The second conflict created by this decision is as to the law of *judicial admissions*, as to which the Seventh Circuit and the Court of Appeals of the District of Columbia have followed the rule that such admissions are binding, even when made in testimony (see App. Op. Br. pp. 24-25).



III.

Opinion Contains Several Factual Errors on Matters Basic to a Just Decision of This Controversy.

This Court's opinion is factually in error on the basic point of the *terms* and *conditions* of the contract. Appellant's Brief spelled out the language of the contract in careful detail. It provided, on the front side, a list of nine

"DIE CHARGE PRICES" [Ex. 21, R. 254-255].

It contained the following printed reference to the *terms* and *conditions* printed on reverse side:

"We [Reynolds Metals Company] acknowledge the receipt of your order and the above is an exact copy of our entry thereof. If there are any objections to the above, please notify us AT ONCE. If we do not receive such notice, it will be understood that you accept the basis on which we have entered your order and that fulfillment of the order will be undertaken and deliveries will be made *under the terms and conditions* of the contract evidenced by this acknowledgement. \* \* \*" (Emphasis supplied.)

On the reverse side, there was but one term and condition which related to *dies* or to *charges* for *dies*. It read:

"1. CONTRACT BETWEEN BUYER AND SELLER: This acknowledgement shall constitute *the entire contract* between Buyer and Seller with respect to the subject matter thereof, and said contract shall not be amended, modified or rescinded except by written agreement signed by an authorized official of each party, expressly referring to this contract. \* \* \*

"1. EQUIPMENT: *Any* equipment (including jigs, printing plates or cylinders, *dies* and tools, etc.)

which Seller constructs or acquires specifically and solely for use on Buyer's order shall be and remain Seller's property and in Seller's sole possession and control. *Any charges made by Seller therefor shall be for the use of such equipment only.* When Seller has not accepted orders from Buyer for product to be made with such equipment for a period of one year, *Seller may then require Buyer to give disposition of the said equipment,* and in the event such disposition is not given within thirty (30) days after such demand, *Seller may without liability make such disposition as it sees fit or may store the equipment for the account of Buyer, charging Buyer for the storage charges \* \* \**" (Emphasis supplied.)

Paragraph 11 was meaningless unless it applied to the dies mentioned on the front side. There was *no term and condition* calling for some type of *die charge* other than that described in Paragraph 11. *There was no testimony that die charges were ever made by Reynolds for dies not made specifically and solely as a result of a purchase order from the customer.*

This Court, in quoting Paragraph 11, omitted the *last sentence thereof*. It is submitted that such sentence, *in pari materia*, clearly indicates that the buyer has rights: the dies cannot be destroyed without notice to him; he can be charged storage in certain events. If the word *solely* does not mean that use will be *exclusively* for him, think of how meaningless and absurd this sentence would be! Reynolds could charge storage to Panaview for any dies it had decided to use, for Windsor or for anyone else!

This Court also failed to consider Paragraph 1 on the reverse side, which says the agreement is an integration of the entire understanding of the parties. How can

Reynolds argue that Paragraph 11 requires a separate agreement that the dies be made *solely* for the customer, when the very existence of any separate agreements is negatived by the phraseology of Paragraph 1?

The language of Paragraph 11 definitely indicates that proprietary rights vest in the Buyer. The dies cannot be destroyed or otherwise disposed of without his consent, and he can be charged storage *if he* is not making use of the dies. How absurd it would be if he had to pay storage while the dies were being used by Reynolds for its own profit.

The Court makes something of the fact that Reynolds made two sets of dies—but the evidence was clear that Reynolds used, for the Windsor order, the set Panaview paid for *at first*, and that the second set was a second thought. *Moreover, if Reynolds is privileged to make a second set from our secret designs, where did they derive this privilege?* They did not disclose our design drawings to Windsor, but they *disclosed them to their own employees* who made the second set of dies for Windsor's use. Is that not a breach of confidence?

The evidence showed that the switch from Paragraph 12 to Paragraph 11 occurred about March, 1953 [see revision date on Ex. 2, R. 91]. This was *without notice* to the trade. Appellant, at all stages, has given appellee the benefit of any doubt, and has hence contended that the two forms are identical in significance, the "exclusive" sentence being eliminated and replaced by the word "solely" in the first sentence.

Since, as this Court must realistically realize, the customer does not actually read the fine print on the reverse of each Acknowledgment received, the only fair inference

to make as to the intention of honest people dealing with each other on such matters is that the clauses were both applicable and of similar import.

However, if, as this Court holds, the significance of Paragraphs 11 and 12 in the two forms is clearly different, then appellee has played a most demoniacal trick on an entire industry, by shifting its form in such a clever fashion that dies theretofore made “exclusively” for use of the customer, now merely become the “property” of appellee, and the customer gets no rights except to pay the die charge, to get notice before disposition, and to pay storage charges if appellee decides to charge same.

It is respectfully submitted that even appellee, at all stages, has conceded that Paragraph 11 has more meaning than this Court has given it. Even in its brief and oral argument, the appellee conceded that it applied to “patented” products, for example. The *fact* that patented products are also protected by law, does not prevent parties from acquiring other contractual protection, enforceable in state courts.

The Court argues that the plaintiff thought that the Panador was about to be patented, and therefore it was not concerned about a “sole use” clause when the contract was made.

The Court’s position on this ground is hard to understand because (i) it is common knowledge that the issuance of patents is not automatic, (ii) *the patent application related to the door itself and not to the dies*, and (iii) the plaintiff needed contractual protection during the prolonged period of patent prosecution.

As a matter of fact, contractual protection of the dies themselves is so important, that a clause relating to ex-

clusive use of dies on which a charge has been made is universal in the extrusion industry—even though the exact form and content varies between competing extruders.

If, however, plaintiff so felt, that no contract was necessary, as the Court finds, what did defendant feel? Would a defendant make dies for a product other than for “sole” use of a customer, knowing a patent was pending on the product? Would Reynolds, in good faith, at that stage—realizing a patent on the door might issue—make dies which it intended to have a right to use for its own Parts Department? Was not this idea of using the dies for its own Parts Department one which suddenly occurred when Windsor brought to its attention the possibility of a large order in direct competition with Panaview? Was not the implied-in-law protection given to designs submitted for a business purpose a matter which both parties are presumed to know, being a matter of law? (See cases cited under Point II of this Petition.) Does not the confidential submission of a trade secret imply protection even without an express contract?

This Court should bear in mind the purpose of Paragraph 11 and of similar clauses in other contracts. Many manufacturers do require their customers to buy and own the dies and other special tools or equipment necessary to manufacture. Others, like Reynolds, do not want the customers to own the dies outright—because they want the repeat orders, which are the cream of any job shop business, for as know-how improves, profits increase. Hence, Reynolds inserts a clause to change the normal outright sale of the dies into a limited sale, title not passing for at least one year after completion of the last order calling for use of the dies. At that time, rather than clutter up its shop, Reynolds will dispose of the



dies, as the customer directs—ship them to him, destroy them, or put them in storage at the customer's expense. No customer would pay a die charge without getting something for his money—at least the right to repeat his order without paying a new die charge!

Hence, it seems clear that the very purpose of Paragraph 11 was to prevent the “die charge price” from meaning a *sale*. The *face* of the contract is entirely in the language of *buyer* and *seller* [R. 91, “sold to”]. It is unambiguous in that respect. It can be modified only by reference to the terms and conditions on the reverse. What does “Price” mean—by reference to the reverse? It clearly *means* a sale—unless Paragraph 11 limits it! The language is all “buyer and seller,” and the “price” is even subject to change, under Paragraph 10 [R. 92].

This Court concludes that Reynolds has two types of die charges:

(1) a Paragraph 11 die charge which gives the buyer only a limited property right to exclusive use, a right to consultation before the die is disposed of, and a corresponding duty to pay certain storage charges.

(2) a non-Paragraph 11 “die charge price” which gives the “buyer” no rights and under which he is not even a “buyer.”

This agreement was drafted by Reynolds. What is there which could lead a “buyer” to believe that he was paying the second type of “die charge” and getting no rights, when no such type of charge is mentioned in the terms and conditions? Why should he think Paragraph 11 was meaningless and applicable to nothing? If the agreement is clear on its face, that Paragraph 11 does not

apply, would it not be his normal inference that he was to own the dies?

The argument on *sales tax* is of no weight. California does not *require* a seller to collect sales tax—he is merely required to pay it, and if he absorbs it not to advertise or talk about it (Stats. of Calif., 1933, Sec. 8, p. 2602; *cf. de Aryan v. Akers*, 12 Cal. 2d 781, 783). Moreover, here it was undisputed that the *dies* were at all times in Arizona—not subject to California sales tax. And there is no evidence that Arizona would impose a sales tax on the dies, whether Panaview owned them outright or had merely a “sole use” right. So far as appellant can ascertain, Arizona has *no sales tax* (*cf. Martindale-Hubbell, Law Digest*, 1957, Vol. 3, re Arizona Occupation Tax).

Moreover, the normal result of a contract listing dies and listing a *die charge price* is to effect a sale. The *very* purpose of Paragraph 11 is to convert what is normally a *sale* into a limited and special type of sale-bailment contract. *Finally, if a sales tax is applicable, buyer agreed to pay it by the express terms and conditions* [see Par. 8, R. 92].

#### IV.

#### Appellee's Cost Bill Should Be Taxed in Accordance With Rule 17(6).

Appellee has submitted a cost bill of \$1,383.15.

It is submitted that appellee's bill should be taxed or stricken, in the light of Rule 17(6) of this Court—because appellee padded the record unnecessarily with many, many pages of expensive, unnecessary printing:

*First*, appellant paid \$380.00 for that portion of the record it designated for printing, as compared with the \$830.09 paid by appellee.

*Second*, appellee's brief of 76 pages does not cite a *single* important reference to any portion of the record other than that designated and printed at appellant's request! (except per Third, below).

*Third*, appellee even has sought to collect costs from appellant for the printing in ten pages of the Printed Record the now famous Windsor memo of November 26, 1954, which *appellee designated for printing and later moved to strike*—a motion which this Court granted [R. 198-207].

It is submitted that simple justice and the plain language of Rule 17(6) should lead this Court to disallow costs to appellee because of their unnecessary increase in the size and cost of the record.

Additionally, this Court's opinion in two places refers to the length of the Printed Record, in the vein that appellant is accused of seeking to convince the Court that such a long record contains no evidence to support the findings. Perhaps if the Record were shorter—containing only the pages designated by appellant, appellant's case would not have been prejudiced by the length of the Printed Record.

Wherefore, appellant prays that a rehearing be granted, that the judgment be reversed, that the costs be taxed and for all other proper relief.

Respectfully submitted,

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MACBETH & FORD,

*Attorneys for Appellant-Petitioner.*



**Certificate of Counsel.**

In our judgment this foregoing petition for rehearing is well founded, and it is not interposed for delay.

MACBETH & FORD and

THOMAS P. MAHONEY,

By PATRICK H. FORD,

*Attorneys for Appellant-Petitioner.*